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The Place to be Seen? Annual General Meetings in the UK 1890 to 1965

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Abstract

This paper explores the popularity of the annual general meeting, its evolution over time and the roles played by directors and shareholders in managing the proceedings. In particular, the role of the small investor and of shareholder associations is explored as well as variations in voting rights over time. The paper is based on reports of annual general meetings, widely reported in the press, on minutes of meetings and associated correspondence in corporate archives, contemporary literature, and on pamphlets published by shareholder associations.

Background

The activism of small shareholders is currently in the news, with acrimonious annual general meetings having been held on both sides of the Atlantic in recent months, for example, Lehmans in the US and Royal Bank of Scotland and Lloyds Bank in the UK. Directors of companies with large numbers of small shareholders have found themselves dealing with protests outside and inside annual general meetings. Anger has been vented at poor corporate governance coupled with generous executive pay schemes.

There is a substantial debate as to when ownership and control separated in British and American firms from the early 20th century onwards. Chandler, in *Scale and Scope*, argued that British firms remained family controlled well into the 20th century while US firms, with the railroads in the vanguard, had pioneered the divorce of ownership and control.[1] Hannah's view is that UK companies were early pioneers in persistent wide shareholding as early as 1900 when US firms were dominated by 'plutocratic family owners, and that US firms took decades to catch up.[2] There is disagreement as to the precise importance of block-holders' holdings in British and American firms, with Cheffins, for example, finding more family ownership in a sample of British companies than Hannah.[3] However, what is not in dispute is that British firms had large numbers of shareholders by the late nineteenth and early twentieth centuries, and not just in railway companies and banks.[4] In the United States, shareholder numbers were originally not as large as in the UK but, by the 1920s, sales of shares to customers, employees and 'Jo public' made for rocketing shareholder numbers and, by the 1930s, a large number of companies with 10,000 shareholders or more.

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[1] Chandler, *Scale and Scope,* Berle and Means, "The Modern Corporation".

[2] L. Hannah, "The 'divorce' of ownership from control from 1900: re-calibrating imagined global histrorical trends', *Business History,* Vol 49, No. 4, (2007).

[3] B. Cheffins, *Corporate Ownership and Control,* Oxford University Press, Oxford, 2008, pp. 242-51; . Hannah, "Divorce".

[4] L. Hannah, Draft paper on 4/- Year Book, 2009. J. Rutterford, "The rise of the small investor in the US and the UK, 1900 to 1960", Paper presented at the European Business History Association Conference, Bergen, Norway, August, 2008.

Up to the 1960s and 1970s, individual shareholders were more numerous and in many companies in aggregate owned the vast majority of shares. However, despite this, small shareholders were viewed as powerless against incumbent managers, suffering from asymmetric information with limited financial disclosure and weak support for individual shareholders from company legislation. It was believed that block holders, whether managers or not, could control the business with little interference from small shareholders, however significant their holdings might be in aggregate terms. [5] Although a number of recent papers by Rafael La Porta, Forencio Lopez-de-Silanes, Andrei Shleifer and Robert W. Vishny have argued that strong minority interests are linked to stock market development, this does not appear to have been the case in either the UK or the US. [6]

So, despite their number, such shareholders had little actual power over management. However, even if they were rarely effective in outvoting management – in the United States, managers had recourse to Treasury stock and could take advantage of undesignated proxy votes – shareholders did have a voice – through questions at annual general meetings and in correspondence with management. They could try – and sometimes succeeded - in forcing management to change tack.

This paper is concerned with the interaction between managers and small shareholders who made up the majority of names on the share ledgers of many companies in both the UK and the US. It is concerned with the period 1890 to 1965 – with three key periods: before World War I, between the wars, and post World War II. The paper will first look at how many shareholders there were, where they lived and who they were, before exploring the interaction through annual general meetings, shareholder associations, and written communications on a number of issues, first for the UK and then for the US. I argue that there were significant differences between shareholder activism in the two countries, partly due to the difference in relative numbers and characteristics of the shareholders themselves, partly to legal differences, and partly to corporate culture and to the earlier diffusion of shareholding in the UK compared to the US.

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[5] Robert Aaron Gordon, *Business Leadership in the Large Corporation*, Brookings Institution, New York, 1945, pp. 160-1, Adolf Berle and Gardiner Means, *The Modern Corporation and Private Property*, Macmillan Co., New York, pp. 140-1, 158-9, 180ff. See also Gardiner Means, "Diffusion", 1932 and William Z Ripley, *Main Street and Wall Street*, Boston, Little, Brown and Company, 1927, p. 95.

[6] For the UK, see Franks, J., Mayer, C. and Rossi, S. 'Ownership: Evolution and Regulation', in, *ECGI Working Paper, University of Oxford*, (Oxford, 2005).For the US, see M. O'Sullivan, "The expansion of the U.S. stock market, 1885-1930: Historical facts and theoretical fashions", Enterprise and Society, Vol. 8, 2007 pp 489 – 542..

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